

PERSONAL INCOME TAX (IRPF)

The Personal Income Tax is a direct personal tax on income obtained by physical persons, it takes into account the personal and family situation of the taxpayer and it's progressive.

It's partially managed by autonomic governments

TAXABLE EVENT:

The obtention of income by the taxpayer. The taxpayer's income is composed by:

- Income from personal work
- Income from capital (both "financial" and property)
- Income from economic activities (business, professional or artistic)
- The capital gains and losses
- The income attribution established by the law.

All activities that might generate income from work or capital will be presumed paid unless proved otherwise.

TAX EXEMPT INCOME

The income from the following sources will be exempt from personal income tax:

- Public extraordinary income from terrorist acts and pensions due to medals rendered from terrorist acts.
- VIH aid income
- Pensions to those that suffered injuries or mutilations due to the civil war
- Compensation due to civil responsibility on personal damages or from accidents insurance policies in the amount recognised by the law or court resolution.
- Dismissal severance payments according to the Workers Statute with a limit of 180.000€.
- Social Security pensions for work disability for any occupation or big disability.
- Public grants

- Alimony pensions received from parents due to court resolutions
- Some relevant scientific or literary prizes
- Financial aid to high level sportsmen
- Unemployment subsidy if it is perceived as an only payment in order to start an economic activity
- Some specific saving plans
- Extraordinary payments by the Government for taking part in international peace missions
- Income from work effectively rendered abroad as far as they are done for a company not incorporated in Spain conditioned to the existence of a similar tax in the country in which the work is rendered (maximum of 60.100€ per year) – Work for parent company
- Compensation by public administrations due to personal damages
- Amounts perceived for funeral expenses (insurance policies, company, etc.)
- Minimum income subsidy from the Central or Autonomic Governments (irrelevant)
- Other...

TAXPAYERS

Spanish Residents: Live in Spain at least 183 days per year or if his main economic interests are located in Spain (presumed if spouse and underage children live in Spain)

Residents abroad: Public servants (diplomats, armed forces, ...)

TAXABLE BASE

There are two different taxable bases depending on the sources of income

GENERAL TAXABLE BASE

- Income from work (the most relevant for this course)
- Income from property capital (rents or indirect income, 2% of tax value)
- Income from economic activities

- Capital gains (gambling, prizes, ...)
- Allocation of income (Shared property of economic activities or rents)

For general taxable income, progressive tax rates are applied (which are the sum of the applicable rate approved by the state and the applicable rate approved by each autonomous community of Spain in their progressive tax rate scales). Tax liability may therefore differ from one autonomous community to another.

SAVINGS TAXABLE BASE

Income from “financial” capital (dividends, interest, ...)

Capital gains and losses from the sale of shares or other financial products, sale of property (house, ...) or sale of other goods and rights (e.g. fine art works).

INCOME FROM WORK

This part is the most relevant for this course, since you will only be required to know the tax obligations of the company regarding PIT (tax withdrawals to employees and professionals)

What income is considered income from personal work?

- Salaries and wages (including benefits in kind)
- Unemployment subsidies
- Pensions from Social Security, Passive Classes (civil servants), Pension Funds...
- Compensation for courses and lectures
- Income from literary work (perceived by the author)
- Compensation to members of the Board of Directors of companies
- Compensatory pensions in case of divorce (except those received by parents due to judicial resolution).

How is the net income from work obtained?

Gross income is composed by the total compensation received, unlike in income from economic activities in which the deductible expenses are, at least nominally,

“open” (all required to obtain the revenues), in the case of income from personal work deduction of expenses is very limited and includes:

Employee payments to Social Security (or the equivalent mutual entity for civil servants).

Payments to orphan entities

Amount paid to unions or professional associations as far as it is compulsory for the job (doctors, lawyers, architects, psychologists, etc.).

Legal expenses against the employer with a limit of 300€

Deductible expenses in general for obtaining income from work 2.000€

In case of employees (not unemployed) with any handicap, 3.500€ from 33 to 65% and 7,750 if the level is higher than 65%.

If the net income from work is lower than 16.825€, there an additional deduction of 5.565€ if the income from work is lower that 13,115€ and between 13,115€ and 16,825€ it will be 5,565€ minus $(1.5 \times (NIW - 13.115))$, This means that for a NIW of 15.000€ the deduction would be 2,737.5€. As you can see, this applies only to very low salaries.

Another important issue is that when income from work has been accrued during more that two years and **is received in a notoriously irregular manner in time**, 30% of it is exempt. This is usually applicable to severance payments due to dismissal when the amount received exceeds 180.000€.

Income from property capital

It includes income from rents and an “indirect” income from properties (other than the usual residence) that are not rented (e.g. if you have a house in the seaside, it is assumed that you earn 2% of the tax value and it is included in your taxable base).

It must be highlighted that if the rented property is the usual residence of the tenant, there is a deduction od 60% of revenues which means the tax treatment is very favourable.

Discussion:

Why income from rented property is not considered income from savings?

Income from economic activities (business, professional or artistic)

In this component of the PIT the law sends us to the corporation tax in order to calculate the net income obtained. In practice, the position of the Tax Administration is extremely restrictive (even more than the law itself), and sometimes they lose when the case is taken to court.

In order to obtain the income generated by economic activities (always done personally, not through companies) we must consider total revenues and deductible expenses (in theory all those required to obtain the revenues, in practice, often there are restrictions, specially if some expenses are both used for personal and business purposes like mobile phone, car, etc.)

There are “simplified” ways of calculating the net income (“objective estimates”) that are based on certain parameters.

Capital Gains

Most capital gains are included in the savings taxable base, but prizes from draws, gains in gambling and some subsidies (e.g. purchase of electric cars) are considered capital gains in the General Tax Base.

Income allocation

In some kind of entities (those without legal personality) the income is allocated among its members. A typical example would be an agricultural activity among several owners.

INCOME FROM SAVINGS

As we'll see later, income from savings has a better treatment in term of tax rates compared to the general taxable income. What is included in income from savings?

Income from movable (financial) capital like interest, dividends, income from investment funds, etc.

Capital gains and losses from sales of shares, property or other goods and rights.

EXEMPTIONS DUE TO PERSONAL AND FAMILY SITUATIONS

Once the total income of the general tax base is calculated (sum of all the sources of income), there are certain amounts that are “deductible” depending on the personal and family situation of the taxpayer.

For declaring jointly (two parent families) 3,400€ notice that this option will only be more favourable if one of the spouses gets relevant income, sin otherwise the income of the second spouse will be taxed at the marginal tax rate.

For declaring jointly (one parent families) 2,150€

Minimum for taxpayer 5,550€ (6,700€ if the taxpayer is over 65 and 8,100 if it's over 75).

Minimum for descendant (must live with the taxpayer and be under 25 unless he has a handicap of at least 33%)

2,400€ for the first

2,700€ for the second

4,000€ for the third

4,500€ for the fourth and subsequent

If the descendant is less than three years old, those minimums will be increased in 2,800€

These figures will be split between the two parents in case the submit their declaration separately.

Personal opinion: Try to maintain a child with those amounts, you will be lucky if you pay the nappies.

Minimum per ascendant that live with the taxpayer and receives less than 8,000€ of income. 1,150€ if is over 65 and 1,400 if it's over 75.

Personal opinion: no comments

Minimum for disability: 3,000€ if its between 33 and 65% and 9,000€ if it's over 65% both for the taxpayer, ascendants or descendants.

TAX RATES

The PIT is a progressive tax, which means that the tax rates increase with the level of income. In the general income rates, there are two different components, due to the fact that the tax is partially managed by Autonomic Governments, the national component for 2021 is as follows:

Bracket		Tax rate
Up to	12.450	9,50%
12.450	20.200	12%
20.200	35.200	15%
35.200	60.000	18,50%
60.000	300.000	22,5
300.000 ahead		24,50%

Regarding the autonomic scales we will see as examples Madrid and Valencia:

MADRID AUTONOMIC SCALE

Bracket		Tax rate
Up to	12.450	9,00%
12.450	17.707	11%
17.707	33.007	13%
33.007	53.407	17,90%
53.407 ahead		21,00%

Maximun tax rate (national+autonomic)

45,50%

VALENCIA AUTONOMIC SCALE

Bracket		Tax rate	
Up to	12.450	9,00%	
	12.450	17.000	11%
	17.000	30.000	13,90%
	30.000	50.000	18,00%
	50.000	65.000	23,50%
	65.000	80.000	24,50%
	80.000	120.000	25,00%
	120.000	140.000	25,50%
	140.000	175.000	27,50%
	175.000	ahead	29,50%

Maximun tax rate (national+autonomic)**54,00%**

Regarding income from savings, the scales is much flatter and normally autonomic governments do not change it (if you increase it, people that live out of savings can easily move somewhere else).

INCOME FROMS SAVING SCALE TOTAL

Bracket		Tax rate
Up to	6.000	19,00%
6.000	50.000	21,0%
50.000	200.000	23,0%
200.000	ahead	26,00%

Notice that in high levels of income, taxation of income from work or economic activities may be twice the amount of income on savings.

Once the gross tax debt is calculated, there are some deductions (donations, numerous family, etc.)

After deducting the applicable deductions, you should subtract the withholdings and payments on account (money already paid) to get the final amount to be paid or reimbursed.

WITHHOLDINGS

Tax scale for withholdings applicable in 2021:

Taxable base (up to EUR)	Tax liability (EUR)	Excess of taxable base(up to EUR)	Tax rate (%)
0	0	12,450	19
12,450	2,365.50	7,750	24
20,200	4,225.50	15,000	30
35,200	8,725.50	24,800	37
60,000	17,901.50	240,000	45
300,000	125,901.50	Remainder	47

In order to calculate the withholding rate to be applied, you must consider the personal and family circumstances of the employee and “calculate” the taxable base and then the amount to be paid and therefore the % of withholding.

In practice this calculation is done by payroll software packages, but you can use a facility in the Tax Agency web page (nobody makes the calculation “by hand”).

Professionals are applied a flat withholding rate of 15%, except if they are in their first three years of professional activity in which case it may be 7%.

All the amounts withheld by the company are paid to the Tax Administration on a monthly or quarterly basis (depending on the company’s annual revenues) using the form 111. In addition companies must submit annually the details of all amounts paid and withheld to employees and professionals (form 190).